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FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 7037

C O N F I D E N T I A L SECTION 1 OF 3 HONG KONG 5047

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TAGS: ECRP CH XX

SUBJECT: PEOPLE'S REPUBLIC OF CHINA ECONOMIC REVIEW 10

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POUCHED: ALGIERS, BANGKOK, BRISBANE, CANBERRA, COPENHAGEN,
JAKARTA, KUALA LUMPUR, LONDON, MANILA, MEXICO, MOSCOW, OSLO,
OTTAWA, PANAMA, PEKING, RANGOON, ROME, SINGAPORE, STOCKHOLM,
TAIPEI, TOKYO, VIENTIANE, COMUSTDC

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1. SUMMARY

DOMESTICALLY THE IMPORTANT NEWS IS THE TIMELY RAINS AND IMPROVED CROP PROSPECTS (ITEM 2). THE CANTON TRADE FAIR CLOSED AMID CLAIMS-- ONLY POSSIBLY TRUE- - THAT THE VOLUME OF BUSINESS EXCEED ALL PREVIOUS RECORDS (ITEM 3). IMPORTANT TO THE US IS THE FACT THAT SEVERAL US FIRMS ARE NOW IN PEKING FOR SERIOUS DISCUSSIONS OF WHAT COULD BE SUBSTANTIAL DEALS (ITEMS 4 AND 8).

ON OTHER FRONTS, PEKING HAS REACHED SUBSTANTIAL AGREEMENTS ON A TRADE PACT WITH AUSTRALIA THAT INCLUDES MFN, AND THERE SEEMS TO BE PROSPECTS FOR SOME LONG- TERM COMMODITY AGREEMENTS AS WELL (ITEM 7). THE PRC HAS ALSO ESTABLISHED TRADE RELATIONS WITH PANAMA (ITEM 11). IN CIVIL AVIATION THE PRC HAS WORKED OUT AN AGREEMENT WITH SAS, BUT THE JAPANESE TALKS HAVE APPARENTLY BROKEN OFF AGAIN (ITEM 8). THE CANADIAN PETROLEUM MISSION APPARENTLY REACHED NO AGREEMENTS BUT SEVERAL MEMBERS EXPECT TO RETURN TO THE PRC LATER TO FOLLOW UP LEADS THAT DEVELOPED (ITEM 6). LIMITED OFFICIAL USE

2. CROP PROSPECTS IMPROVE

TIMELY RAINS FELL ON MAY 6-7 OVER MUCH OF DROUGHT AFFLICTED NORTH CHINA INCLUDING HOPEI, HONAN, SHANTUNG, AND LIAONING PROVINCES (NCNA MAY 7). PRECIPITATION AVERAGED 10-30 MM IN HONAN, THE GREATER PART OF SHANTUNG, CENTRAL HOPEI (31 MM IN TIENTSIN AND 22 MM IN PEKING), AND EASTERN LIAONING. LESS THAN 10 MM FELL IN OTHER AREAS. RAIN ON APRIL 30 COUPLED WITH RAIN ON APRIL 22-24 IN MOST PARTS OF SHANTUNG HAVE GREATLY IMPROVED THE PROSPECTS OF THE WINTER GRAIN CROPS IN THESE AREAS WHILE CREATING GOOD CONDITIONS FOR SPRING SOAN CROPS.

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TRANSPLANTING OF EARLY RICE HAS NOW BEEN COMPLETED IN THE FIVE PROVINCES OF SOUTH CHINA AND KWANGSI (NCNA MAY 14). IN CHANGSHA DURING WEEKEND OF MAY 5-6 LOCAL CHINESE OFFICIALS TOLD ITALIAN COMMERCIAL OFFICER THAT WHILE WEATHER HAD BEEN DRY EARLIER IN THE YEAR RAINS HAD COME AT THE RIGHT TIME FOR RICE TRANSPLANTING AND PROSPECTS NOW WERE FOR A GOOD
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3. CANTON TRADE FAIR CLOSES AMID RECORD CLAIMS

THE 33 RD CANTON TRADE FAIR CLOSED AMID PRC CLAIMS THAT
(1) ATTENDANCE EXCEEDED THAT OF THE (NORMALLY LARGER) FALL
FAIR, 26,000 VS 23,000; (2) THE NUBER OF BUSINESSMEN FROM
THE US INCREASED (A FAIR OFFICIAL AT ONE POINT PUT THE
NUMBER AT ABOUT 140); AND (3) " THE VALUE OF TRANSACTIONS
COMPLETED SURPASSED ALL PREVIOUS RECORDS"(NCNA). THE LAST
CLAIM IS POSSIBLY TRUE BECAUSE PRICE INCREASES WERE DRASTIC
IN MANY CASES (SEE ER 9, HK 4426; AND HK 4584), AND THERE
WERE FEW INDICATIONS OF SIGNIFICANT PRICE BREAKS EVEN IN
THE CLOSING DAYS OF THE FAIR. FURS AND SKINS WERE AVAIL-
ABLE IN QUANTITY, BUT OTHER COMMODITIES AND HANDICRAFTS
SOLD OUT EARLY, APPARENTLY PARTLY BECAUSE OF LIMITED
SUPPLIES. TEXTILE PURCHASES WERE STILL BEING NEGOTIATED
ON THE LAST DAY OF THE FAIR, WHICH SUGGESTS BOTH HARD
BARGAINING OVER PRICES AND EVENTUALLY DECISIONS TO BUY.
AMERICAN BUSINESSMEN REPORTED NO LARGE DEALS CONSUMMATED,
ALTHOUGH SEVERAL WERE INVITED TO PEKING WHICH IS USUALLY
A GOOD SIGN (SEE ITEMS 4 AND 8). MOST US TRADERS ENCOUNTERED
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FDA AND LABELLING PROBLEMS AS WELL AS PRICE DIFFICULTIES
DUE TO HIGHER THEN MFN TARRIFFS AND HIGH SHIPPING COSTS

INCLUDED IN C& F QUOTATIONS. LIMITED OFFICIAL USE

4. POSSIBLE US SALE OF WHOLE PLANTS AND TECHNOLOGY TO THE PRC

THREE MAJOR US FIRMS HAVE BEEN INVITED TO PEKING TO DISCUSS THE POSSIBLE SALE OF WHOLE PLANTS AND TECHNOLOGY TO THE PRC. ON MAY 16 A DELEGATION REPRESENTING THE GENERAL ELECTRIC TECHNICAL SERVICES COMPANY LEFT HONG KONG FOR TALKS ON COMPLETE GAS TURBINE PLANTS AND ENGINEERING SERVICES (HK 4807). THEIR VISIT COINCIDES WITH THAT OF A MONSANTO DELEGATION CURRENTLY NEGOTIATING FOR THE SALE OF A PETROCHEMICAL COMPLEX (HK 2767). ON MAY 19 THESE FIRMS WERE JOINED BY THE UNIVERSAL OIL PRODUCTS COMPANY WHICH HAS BEEN INVITED TO DISCUSS THE SALE OF OIL REFINERIES AND REFINING TECHNOLOGY.

AS A FURTHER INDICATION OF CHINESE INTEREST IN US PLANTS AND TECHNOLOGY, A DELEGATION FROM CONTINENTAL OIL COMPANY WAS ASKED AT THE SPRING CANTON TRADE FAIR TO PREPARE PLANS FOR SEVEN PETROCHEMICAL PLANTS FOR THE PRODUCTION OF POLYVINYL CHLORIDE (CONOCO MEMCON 5/9/73). MEANWHILE THE STANDARD OIL CO OF OHIO (SOHIO) HAS REACHED AGREEMENT WITH THE PRC FOR THE SALE OF SYNTHETIC FIBER TECHNOLOGY. THE LICENSE CALLS FOR THE PRODUCTION OF ABOUT 55,000 TONS OF ACRYLONITRILE (ABSIC RAW MATERIAL FOR ORLON AND ACRILAN) PER YEAR; A JAPANESE COMPANY WILL BUILD THE PLANT ESTIMATED TO COST \$29 MILLION. THE PRICE OF THE SOHIO TECHNOLOGY WAS NOT DISCLOSED (WALL STREET JOURNAL, MAY 7). NEWS REPORTS FROM NEW YORK THAT SOHIO HAS ALSO JUST SOLD SIMILAR TECHNOLOGY TO CHINA PETROCHEMICAL DEVELOPMENT CORPORATION ON TAIWAN SUGGEST THAT THE PRC'S REACTION WILL BE WORTH WATCHING FOR CLUES TO ITS FUTURE BEHAVIOR IN THIS AREA OF POTENTIAL PROBLEMS FOR US BUSINESSMEN. CONFIDENTIAL

5. PETROCHEMICALS: US FIRMS VISIT CHINA

TWO US OIL COMPANIES (CONOCO AND ESSO, HK) INVITED
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TO THE CANTON FAIR HELD DISCUSSIONS THERE CONCERNING THE POSSIBLE PURCHASE OF PRC PETROLEUM BYPRODUCTS (PARAFIN AND A LOW GRADE FUEL OIL), AS WELL AS THE SALE TO CHINA OF CHEMICALS (PVC, MOTOR OIL, AND AUTO LUBRICATION ADDITIVES. TO OUR KNOWLEDGE, NONE OF THESE DISCUSSIONS LED TO AGREEMENTS. RIGID PRC SELLING TACTICS, HIGH PRICES, AND TIGHT SUPPLY BOTH IN THE PRC AND THE US APPARENTLY WERE AMONG NEGATIVE FACTORS PRECULDING EARLY AGREEMENT. ONE MAJOR
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8. CIVIL AVIATION: JAPAN, SCANDANAVIA, UK AND US

NCNA REPORTED BRIEFLY AND WITHOUT COMMENT THE DEPARTURE FROM CHINA MAY 2 OF THE JAPANESE VICE MINISTER OF FOREIGN AFFAIRS FUMICHIKO TOGO AND THE DEPUTY DIRECTOR OF THE AVIATION BUREAU OF THE MINISTRY OF TRANSPORTATION. AT A NEWS CONFERENCE IN TOKYO ON MAY 4 TOGO SAID THE NEGOTIATIONS HAD BROKEN DOWN OVER THE PRC DEMAND THAT JAPAN SEVER HER AIR LINKS TO TAIWAN AND THAT IT WAS " DIFFICULT TO SAY" WHEN THE TALKS WOULD BE RESUMED OR WHEN AGREEMENT COULD BE REACHED (HONG KONG STANDARD, MAY 6). SUBSEQUENTLY, LIAO CHENG- CHIH DISCUSSED THE MATTER WITH FONMIN OHIRA AND BOTH EXPRESSED THE HOPE THAT TALKS WOULD CONTINUE THROUGH THE PRC AMBASSADOR IN TOKYO (AFP, MAY 18). BEGIN LIMITED OFFICIAL USE

A JAPANESE MFA OFFICIAL COMMENTED TO EMBASSY TOKYO THAT IT WAS POSSIBLE THAT AN AVIATION AGREEMENT WOULD NOT BE THE FIRST MAJOR GOVERNMENT- TO- GOVERNMENT AGREEMENT WITH THE PRC BUT MIGHT BE PRECEDED BY A MARITIME OR FISHERIES AGREEMENTN KTOKYO 5559). A JAPANESE CONGEN OFFICER HAD EARLIER SAID HE EXPECTED THE FISH-
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ERIES DISCUSSIONS TO BEGIN IN THE EARLY SUMMER (I. E. AFTER THE CURRENT FISHERIES AGREEMENT WOULD RUN OUT) TO BE FOLLOWED

LATER IN THE YEAR BY TRADE DISCUSSIONS LOOKING TOWARD AN AGREEMENT BY THE END OF THE YEAR WHEN THE CURRENT MEMORANDUM TRADE AGREEMENT RUNS OUT. END LIMITED OFFICIAL USE

NEGOTIATIONS WITH THE SCANDANAVIANS WERE MORE SUCCESSFUL. GOVERNMENT AIR TRANSPORT AGREEMENTS BETWEEN CHINA AND NORWAY, CHINA AND DENMARK, AND CHINA AND SWEDEN WERE INITIALED IN INE KING MAY 8, AND THE SCANDANAVIAN DELEGATION LEFT CHINA THE FOLLOWING DAY (NCNA, MAY 9). THE AGREEMENTS WITYMLYHQXY AND DENMARK WERE SIGNED IN PEKING BY THE RESPECTIVE FOREIGN MILISTERS ON MAY 12 AND 18, RESPECTIVELY, AND THE FOREIGN MINISTER OF SWEDEN IS ALSO EXPECTED TO SIGN THAT AGREEMENT DURING HIS MAY VISIT TO PEKING (STOCKHOLM 1570, NCNA). ACCORDING TO THE SAME STOCKHOLM REPORT, THE SAS ROUTE WOULD ORIGINATE IN SCANDANAVIA (PROBABLY COPENHAGEN) AND PROCEED VIA MOSCOW AND IRKUTSK TO PEKING- SHANGHAI, WITH ROUTES TO TOKYO AND BEYOND TO BE DECIDED LATER. (MEANWHILE, THE CHINESE CIVIL AIR DELEGATION IN MOSCOW (ER 7, HK 3469) WAS SAID TO BE NEGOTIATING A POSSIBLE ROUTE FOR CHINESE AIR SERVICE TO SCANDANAVIA.) THE SAS CHIEF TOLD THE STOCKHOLM PRESS THAT HE DOUBTED THAT SERVICES COULD BEGIN " BEFORE 1975."

FOLLOWING PRELIMINARY TALKS INITIATED BY BOAC LAST YEAR, BRITISH GOVERNMENT AND AVIATION OFFICIALS WERE EXPECTED TO BEGIN TALKS IN PEKING ON MAY 18 CONCERNING AIR SERVICE BETWEEN LONDON AND PEKING. SEVERAL POSSIBLE ROUTINGS ARE BEING CONSIDERED: DIRECT FROM EUROPE, OR VIA HONGNVONG OR SINGAPORE (REUTER, PEKING, MAY 3; REUTER, LONDON, MAY 12).

MEANWHILE, US AIRLINES HAVE BEGUN TO MAKE SOME OPENINGS. A PAN AM 707 FLEW INTO PEKING MAY 16 WITH MATERIAL CONSIGNED TO THE USLO, A WASHINGTON LAWYER REPRESENTING UNITED AIRLINES IS CURRENTLY IN PEKING, AND THE REGIONAL VICE PRESIDENT OF TWA AND THE REGIONAL MANAGER OF NORTHWEST ORIENT HAVE BEEN INVITED TO JOIN A GROUP TOUR OF AIRLINE BUSINESSMEN TO VISIT KWANGCHOW, HANGCHOW, SHANGHAI, NANKING, AND PEKING FROM MAY 26 TO JUNE 12. UNCLASSIFIED

9. PRC BANK AND INSURANCE DELEGATION ARRIVES IN LONDOCC
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A DELEGATION REPRESENTING THE BANK OF CHINA (BOC), AND THE PEOPLE' S INSURANCE COMPANY (PIC) ARRIVED IN LONDON MAY 15 ON THE FINAL STOP OF A THREE- NATION TOUR (NCNA). THE DELEGATION WAS LED BY KENG TAO- MING, DEPUTY GENERAL MANAGER OF THE BOC AND GENERAL MANAGER OF THE PIC. PREVIOUSLY, THE GROUP HAD VISITED ALBA
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